

Nate Gerze, CFA – Economic Analyst  
 Brian S. Wesbury – Chief Economist  
 Robert Stein, CFA – Dep. Chief Economist

## February ISM Non-Manufacturing Index

- The ISM Non-Manufacturing index increased to 53.5 in February, beating the consensus expected 52.5. (Levels above 50 signal expansion; levels below signal contraction.)
- The major measures of activity were mostly higher in February and all stand above 50, signaling growth. The new orders index increased to 52.2 from 51.3, while the business activity index ticked down to 54.4 from 54.5. The employment index increased to 53.9 from 52.3 and the supplier deliveries index rose to 53.4 from 53.0.
- The prices paid index increase to 62.6 in February from 60.4 in January.

**Implications:** The February ISM Services report signaled continued expansion in the sector that drives two-thirds of the US economy. The overall index beat consensus expectations and rose to 53.5 in February from a previous level of 52.8. We do believe sentiment can move this survey so it may reflect new optimism of political change. Fourteen out of eighteen major service industries reported growth in the month while three reported contraction. The overall increase was led by faster growth in employment, with the index moving to the highest level since late 2021 at 53.9. However, growth was split, with an equal number of industries (seven) reporting an increase versus a decrease in employment in February. Notably, two of the industries to report a decrease in employment were Public Administration and Health Care & Social Assistance, both of which were lifted by government spending but likely now affected by the impact of DOGE. As for other details, new orders picked up while business activity remained steady. Both of these forward-looking indexes sit in expansion territory (52.2 and 54.4, respectively), but survey comments suggest things could change quickly, as they were full of concerns over tariffs and how they will affect activity if implemented. Finally, the highest reading of any category was once again the prices index, which increased to 62.6 in February, with sixteen out of eighteen major industries paying higher prices. Inflation was a major problem before any new tariffs and will continue to be one if the Federal Reserve does not have the resolve to let tight money suffocate the embers of inflation that remain. As for the economy, the service sector continues to be a lifeline for growth, standing in contrast to the recent wave of weak economic data. In other news this morning, ADP's measure of private payrolls increased 77,000 in February versus a consensus expected 140,000. We're estimating Friday's official report will show a nonfarm payroll gain of 165,000 with the unemployment rate remaining steady at 4.0%. On the autos front, cars and light trucks were sold at a 16.0 million annual rate in February, up 3.2% from January and up 2.1% from a year ago.

ISM Services: Services PMI Composite Index  
 SA, 50+=Increasing



Source: Institute for Supply Management/Haver Analytics

ISM Services: Prices Index  
 SA, 50+ = Economy Expanding



Source: Institute for Supply Management/Haver Analytics

Non-Manufacturing ISM Index <i>Seasonally Adjusted Unless Noted</i>	Feb-25	Jan-25	Dec-24	3-month <i>moving avg</i>	6-month <i>moving avg</i>	Year-ago <i>level</i>
<b>Composite Index</b>	<b>53.5</b>	52.8	54.0	53.4	53.9	52.2
<b>Business Activity</b>	<b>54.4</b>	54.5	58.0	55.6	56.5	56.7
<b>New Orders</b>	<b>52.2</b>	51.3	54.4	52.6	54.7	55.2
<b>Employment</b>	<b>53.9</b>	52.3	51.3	52.5	51.5	48.0
<b>Supplier Deliveries (NSA)</b>	<b>53.4</b>	53.0	52.5	53.0	52.8	48.9
<b>Prices</b>	<b>62.6</b>	60.4	64.4	62.5	60.7	57.8

Source: Institute for Supply Management